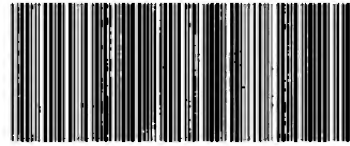




**Lawrence County**  
Government Center  
430 Court Street  
New Castle, PA 16101-3593  
Phone: (724) 656-2128  
Fax: (724) 656-1966  
recorder@co.lawrencepa.us



0591672-0002P

**RECORDING COVER PAGE**

Page 1 of 5

**Document Type:** Oil & Gas Lease

**Transaction #:** 531632

**Document Date:** 05/07/2008

**Document Page Count:** 4

**RETURN TO:**  
GREYSTONE GAS & OIL

**SUBMITTED BY:**  
GREYSTONE GAS & OIL

**PARCEL ID:** 34123200  
**NUMBER OF IDS:** 1

**PARTY 1:** SCOTT A HERMAN

**CONSIDERATION/SECURED AMT:** \$0.00

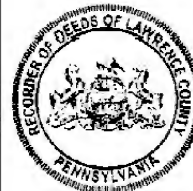
**FEES / TAXES:**

Recording Fee	\$18.50
SOV Fee	\$0.00
Parcel ID Certification Fee	\$10.00

**Total:** \$28.50

**Document Number:** 2008-006249  
**Recorded Date:** 06/27/2008

I hereby CERTIFY that this document  
is recorded in the Recorder's Office of  
Lawrence County, Pennsylvania



Janet L. KalaJainen  
Recorder of Deeds

**NOTE:** If document data differs from cover sheet, document data always supersedes.  
**\*COVER PAGE MAY NOT INCLUDE ALL DATA, PLEASE SEE INDEX AND DOCUMENT  
FOR ANY ADDITIONAL INFORMATION.**

**DO NOT REMOVE - THIS PAGE IS PART OF THE RECORDED DOCUMENT.**

## OIL &amp; GAS LEASE

Pz Lease

THIS LEASE, made and entered into this 27<sup>th</sup> day of May, 2008, by and between Scott A. Herman (Owner) (hereinafter called the Lessor) of 1238 Matilda, New Castle, Pa 16101 and BASS GAS, INCORPORATED (hereinafter called the Lessee) of 130 Merz Blvd., Akron, Ohio 44333,

WITNESSETH, That the Lessor, for and in consideration of Lessee's covenants and agreements hereinafter contained (the adequacy of said consideration being stipulated by Lessor), does hereby lease and let exclusively unto the Lessee, for the purpose of geophysical seismic evaluation, drilling, operating for, producing and removing oil, gas and all the constituents thereof, from the subject lands and any consolidated drilling unit. Lessor further grants Lessee the right to transport by pipelines or otherwise across and through said lands and any consolidated drilling unit oil, gas and their constituents. Lessee shall also have the right to enter into and upon the leased premises using routes and methods previously approved by Lessor, which approval shall not be unreasonably withheld, at all times for the above purposes, being all that certain tract of land (hereinafter "Leased Premises"), situated in Map# 4203 Original Lot      Tract      of Union Township, Lawrence County, of Pennsylvania containing 59 acres, more or less, bounded substantially as follows:

Permanent Parcel #(s) 34123200 -

North by lands of: J. H. and R. Eckert Ord Book 1630 Page 23

East by lands of: W. Wellman

South by lands of: Penn Power Co

West by lands of: A. Pagley and H. Hank

1. **TERM OF LEASE** This lease shall continue in force for a term of Five Years and so much longer thereafter as oil and gas or their constituents are produced or are capable of being produced on the premises in paying quantities, in the reasonable judgment of the Lessee. If no well has been drilled nor operations to begin drilling a well on the premises within the five year primary term, Lessee may extend the primary term for an additional three (3) years by issuing the Lessor a one time payment of sixty dollars per acre prior to the original expiration date of the original primary term of the lease.

2. **DELAY RENTALS** This lease, however, shall become null and void and all rights of the parties hereunder shall terminate unless, within twelve months from the date hereof, a well shall be commenced on the premises, or unless the Lessee shall thereafter pay an annual delay rental of Five Dollars (\$5.00) dollars per acre, payments to be made in advance, and until the commencement of a well. A well has been commenced when a drilling rig moves onto the location and begins to spud the well. At this time, a "Spud Fee" of Four Thousand Dollars (\$4,000.00) will be paid by Lessee to the Lessor. The "Spud Fee" shall be paid on a per well basis.

3. **ROYALTY PAYMENTS** Lessee covenants and agrees to pay to Lessor, as royalty hereunder, the proportional share of one-eighth (1/8) of the proceeds paid to Lessee for all oil marketed and produced from the premises as the Lessor's acreage bears to the entire drilling unit. Lessee also agrees to pay to the Lessor, as royalty hereunder, the proportional share of one-eighth (1/8) of the proceeds paid to Lessee for all gas marketed and produced from the premises as the Lessor's acreage bears to the entire drilling unit. Payment for oil and gas marketed during any calendar month will be on or about the 30<sup>th</sup> day after receipt of such funds by the Lessee. Lessee will deduct from Lessor's royalties Lessor's pro rata share of any tax imposed by any government body. All money due under this lease shall be paid or tendered to the Lessor by check made payable to the order of and mailed to Lessor of Above Address. No change in ownership shall be binding upon Lessee unless in writing, being duly signed by the parties to the instrument of conveyance or assignment, and only after delivery to Lessee of a duly certified copy thereof. Lessee shall provide to Lessor a record of the amount of hydrocarbons removed from the Leased Premises and shall provide a full accounting of all proceeds from the sale of hydrocarbons. Lessor shall have the right through a duly authorized representative to inspect the records of the Lessee pertaining to the Leased Premises and the well location thereon.

4. **FREE GAS** In lieu of Lessor using free gas from a well drilled and producing on the premises, Lessee shall pay Lessor a price equal to the current field market rate for 200,000 cubic feet of gas per year for the first eight years in which the well produces or until such time as the gross proceeds from the sale of oil and gas from the well drop below \$10,000.00 in any one year, whichever is sooner. The field market rate is the price received by Lessee for gas at the Local gas utility meter. Lessor further agrees that upon the sale or transfer of the leasehold premises, the Buyer of the property will be bound by the same terms contained in this paragraph. Free gas payments shall be made in the first quarter of the year following the year for which payments are due and applicable and shall be based upon the average annual price received by the Lessee for that year for gas sold from the premises. Notwithstanding any other contrary provision hereof, Lessor and Lessee acknowledge and agree that (a) the value of free gas for which Lessor is paid shall not reduce the royalties payable to Lessor hereunder.

**5. NON-PRODUCING WELLS** In the event a well drilled hereunder is a dry hole and is plugged according to law, this lease shall become null and void and all rights of either party hereunder shall cease and terminate, unless within twelve (12) months from the date of completion of the plugging of such well, the Lessee shall commence another well, or unless the Lessee after the termination of said twelve month period resumes the payment of delay rental as provided above, where time remains in the primary term. In the event a well drilled hereunder is capable of commercial production and the Lessee is unable to market such production therefrom, or should production cease from a producing well drilled on the premises, or should the Lessee desire to shut in producing wells, the Lessee agrees to pay the Lessor, commencing on the date six months from the completion of such producing well or the cessation of production, or the shutting in of producing wells, a non-refundable shut-in payment in the amount of fifty dollars per month per shut-in well located on the Lessor's premises, or should the Lessor's premises be consolidated with others upon whose land a well is drilled and shut-in, the non-refundable sum of Five Dollars (\$5.00) per consolidated acre per year until production is marketed and sold off the premises of such well is plugged and abandoned according to the law.

**6. LEASE CONSOLIDATION** Lessor hereby grants to the Lessee the right at any time to consolidate the leased premises or any part thereof or strata therein with other lands to form an oil and gas development unit of not more than 240 acres, or such larger unit as may be required by state law or regulation for the purpose of drilling a well thereon, but the Lessee shall in no event be required to drill more than one well on such unit. Any well drilled on said development unit, whether or not located on the leased premises, shall nevertheless be deemed to be located upon the leased premises within the meaning and for the provisions and covenants of this lease to the same effect as if all the lands comprising said unit were described in and subject to the lease; provided, however, that only the owner of the lands on which such well is located may take gas as provided under paragraph #4 above and provided further that the Lessor agrees to accept, in lieu of the one-eighth (1/8<sup>th</sup>) oil and gas royalty herein provided, that proportion of such one-eighth (1/8<sup>th</sup>) royalty which the acreage consolidated bears to the total number of acres comprising said development unit. Lessor shall accept said royalties in lieu of any delay rental on non-consolidated acreage. The Lessee may effect such consolidation by submitting a plat showing the same in its application for a drilling permit or by executing a declaration of consolidation with the same formality as this oil and gas lease, setting forth the leases or portions thereof consolidated, the royalty distribution, and recording the same in the recorder's office at the courthouse in the county in which the leased premises is located. Lessee shall have the right to amend, alter or correct and such consolidation at any time in the same manner as herein provided. Lessor agrees to sign any division orders or other documents that any purchasers of oil or gas may require.

**7. RECLAMATION OF LEASED PREMISES** Lessee shall bury all pipelines used to conduct oil or gas to, on, through and off the premises and pay all damages caused by operations under this lease including crop damages. Lessee agrees to restore the premises in accordance with all applicable laws, rules and regulations of the State of Ohio. Additionally, Lessee agrees to restore the premises to original conditions nearly as reasonably possible. Restoration shall be completed within 90 days after all work has been completed in relation to the drilling, completion, and hook up of the well and all pipelines, weather and seasonal conditions permitting.

**8. LOCATION OF WELL, EQUIPMENT AND PIPELINES** Lessee shall submit to Lessor, prior to commencing drilling, a plat showing the location of the well, pipelines, access road, tank battery, gas measurement equipment, and portion of Lessor's property to be included in the drilling unit. Lessee shall receive written approval from the Lessor of the location of the well, well surface equipment, pipelines, access road, and fencing material prior to commencing drilling operations. Such approval shall not be unreasonably withheld. Lessee agrees to maintain the well and all related equipment installed on the Leased Premises and to repair or replace the equipment if damaged due to wear and tear or the acts of others. In the event that Lessor shall choose to subdivide its land, Lessor shall have the right, at its expense, to relocate all roads, pipelines and equipment (save the wellhead) of the Lessee to conform to its plan of subdivision. In the event that such items need to be relocated, Lessor shall give the Lessee reasonable notice of its intention to relocate, and shall cooperate with Lessee so that interruption in hydrocarbon sales is minimized. Lessee agrees to notify Lessor and to obtain Lessor's written approval prior to the commencement of drilling operations.

**9. PLUGGING AND ABANDONMENT** Lessee shall have the privilege of using sufficient oil, gas, water, or completion media for operating on the premises and the right at any time during or after the expiration of this lease to remove all pipe, well casing, machinery, equipment or fixtures placed on the premises. In the event that the Lessee shall choose to plug and abandon the well, the cost of plugging and abandonment, removal of all equipment and site restoration shall be the sole expense of Lessee. Lessee shall conduct all plugging and abandonment operations in compliance with all applicable law and rules and regulations set forth by the Pennsylvania Division of Oil and Gas or its successor. Lessor may purchase any well drilled on its land, and such well equipment necessary to operate the same at fair market salvage value, when any well has ceased to produce in paying quantities in the judgment of the Lessee. The price for the same shall be the average of three independent bids. Lessor shall have thirty days, after receiving written notice, to exercise its option to purchase. Should the Lessor purchase any well or wells it shall assume the responsibility to operating and eventually plugging the same and shall execute such documents to this end as may be required to affect proper well transfer.

**10. RIGHT TO ASSIGN AND PAY CLAIMS** Except for the assignment of a working interest or overriding royalty interest in this Lease, Lessee must notify Lessor of assignment or transfer of this Lease in whole or in part. Lessor agrees that when and if this lease is assigned, subleased, or otherwise transferred by Lessee, liability for breach of any of Lessee's obligations hereunder shall rest exclusively with the owner of this lease or portion or

interest thereof who commits such breach occurring thereafter. In the event of Lessee's assignment of a segregated portion of the premises leased hereunder, rentals or royalties payable hereunder shall be apportioned to each segregated portion, and default in rental or royalty payment as to one portion shall not affect the Lessee's (or Lessee's assigns') interest in remaining portions. The Lessor further grants to the Lessee the right to pay and satisfy any claim or lien against the Lessor's interest in the premises leased hereunder and thereupon to become subrogated to the rights of such claimant or lien holder. The Lessee shall have the right to direct payment of all rentals and royalties to apply on the payment of any existing claims or liens on the premises. The rights of either party hereunder may be assigned in whole or in part. No change in ownership of the land or rentals or royalties shall be binding on the Lessee until Lessee has received notice and has been furnished with the written transfer or certified copy thereof.

**11. RIGHT TO SURRENDER** Lessee shall have the right to surrender this lease or any portion thereof. Lessee may surrender the lease by giving Lessor written notice describing the portion that it elects to surrender, or by returning the lease to the Lessor with the endorsement of surrender thereof, and shall record the surrender or partial surrender of this lease. The surrender of the lease or portion thereof shall result in the cancellation of all liabilities relating in any way to the portion indicated on said surrender, and the land rental herein set forth shall be reduced in proportion to the acreage surrendered. A partial surrender of this lease shall result in a cancellation of only the liabilities relating to the portions surrendered that accrue after the time of surrender.

**12. FORCE MAJEURE** In the event the Lessee is unable to perform hereunder by reason of force majeure, including but not limited to acts of God, inclement weather, strikes, riots, and governmental restrictions including but not limited to restrictions on the use of roads, this lease shall nevertheless remain in full force and effect until the Lessee can perform said act or acts and in no event shall the within lease expire for a period of ninety days after the termination of any force majeure.

**13. NOTICES AND ARBITRATION** In the event either party considers that the other has not complied with any of its obligations hereunder, either express or implied, said party shall notify the other in writing setting out specifically in what respects this contract has been breached. The party served with such notice shall then have thirty (30) days after receipt of notice within which to meet or commence to meet all or any part of the breaches alleged. The service of said notice shall be mandatory prior to the bringing of any claim under this lease of any cause, and no such action shall be brought until the lapse of thirty (30) days after the service of such notice. Any controversy or claim arising out of or relating to this agreement shall be settled by arbitration. Either party may initiate any arbitration proceeding by notifying the other party in writing, but only after the aforementioned notice of breach as been served and the time period for cure provided for in this lease has expired. The procedure to be followed in the event of any arbitration shall be that prescribed in the Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrators may be entered in any Court having jurisdiction thereof.

**14. INSURANCE** Lessee shall maintain Commercial General Liability insurance in an amount not less than \$5,000,000 for the life of the well. The policy shall name the Lessor as an additional insured party. Lessee shall provide Lessor with a certificate of insurance naming Lessor as an additionally insured, on an annual basis, within 30 days of the renewal of such policy. Lessee shall provide to Lessor written notice of the cancellation, non-renewal or reduction of coverage. A Certification of Insurance evidencing all coverage and endorsements set forth above shall be furnished to Lessor upon request.

**15. INDEMNIFICATION** Lessee covenants and agrees to indemnify, defend and hold harmless the Lessor and the demised premises from and against any loss, cost, judgment or expense including but not limited to attorney's fees incurred by or brought against Lessor in connection with any claim and liability for loss to persons, bodily injury, including loss of life, and property damage sustained by Lessee, or any other person coming on the premises, whether arising out of the condition of the leased premises or Lessee's operation on or of the leased premises or in any other way connected with the leased premises.


**16. MISCELLANEOUS PROVISIONS** Lessor accepts as full and adequate consideration for all of the rights herein granted to the Lessee the land rentals, free gas or royalties paid and to be paid, as herein provided. Lessor agrees that the Lessor shall grant no other lease of the minerals covered by this lease during the term of this lease or any extension or renewal thereof. All covenants and conditions between the parties hereto shall extend to their heirs, personal representatives, successors and assigns, and the Lessor hereby warrants and agrees to defend the title to the lands herein described.

**17. ENTIRE AGREEMENT** Lessor and Lessee mutually agree that this instrument contains and expresses all of the agreements and understandings of the parties. No verbal representations or promises have been made or relied upon by either part that are not contained herein, and no implied covenant, agreement or obligation shall be read into this agreement or imposed upon either party. Lessor further agrees to sign such additional documents as may be reasonably requested by Lessee to perfect Lessee's title to the oil and gas leased herein and such other documents related to the sale or production of hydrocarbons as may be required by Lessee or others.

**IN WITNESS WHEREOF**, the undersigned have executed this instrument on the day and year first above written.

LESSOR

By

  
SCOTT A. Herman

By \_\_\_\_\_

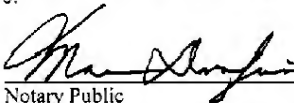
## NOTARY ACKNOWLEDGEMENT

COMMONWEALTH OF PENNSYLVANIA )

COUNTY OF LAWRENCE ) SS:

BEFORE ME, a Notary Public in and for said County and State, personally appeared the above-named SCOTT A. HERMAN, as OWNER who acknowledged that he/she/they did execute the foregoing instrument and that the same is his/her/their free act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal at 1489 W. WASH. ST. NEW CASTLE, PA 16101 Pennsylvania, this 12 day of MAY, 2008.

  
Notary Public